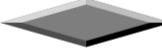


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**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
INVESTMENT COMMITTEE**

**MINUTES OF MEETING  
OPEN SESSION**

**June 19, 2006**

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The Investment Committee met on Monday, June 19, 2006 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:05 a.m. and the following members were present:

Charles Valdes, Chair  
George Diehr, Vice Chair  
Philip Angelides, represented by John Hiber  
Marjorie Berte  
Robert F. Carlson  
Rob Feckner  
Priya Mathur  
Michael Navarro, represented by Debbie Endsley  
Tony Oliveira  
Kurato Shimada  
Maeley Tom  
Steve Westly, represented by Karen Greene Ross

Investment Committee members excused:  
Mike Quevedo, Jr.

**AGENDA ITEM 2 – APPROVAL OF MAY 2006 MEETING MINUTES**

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED** that the May 15, 2006 Open Session minutes be approved as presented.

### **AGENDA ITEM 3 – CalPERS TOTAL FUND QUARTERLY REPORT**

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented the Executive Summary of the Investment Performance quarterly report for the period ending March 31, 2006. The performance of each asset class was reviewed and it was noted that continuing high energy prices and rising commodity prices caused inflationary pressures and the Fed raised rates twice during the quarter. Generally the quarter was good.

The Chair directed that in future reports Wilshire Associates provide information regarding where CalPERS ranks in terms of its funded status with respect to other state pension funds.

The Committee accepted the information report.

### **AGENDA ITEM 4 – REAL ESTATE**

There were no items to report.

### **AGENDA ITEM 5a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, Strategic Review Implementation Update**

Russell Read, Chief Investment Officer, and Leon Shahinian, Senior Investment Officer, presented a quarterly update regarding the implementation of the strategic review action plan for the seven key findings. Mike Moy, Pension Consulting Alliance, was available to respond to Committee questions.

The update included a review of the Program organizational structure and staffing status. Three new employees were introduced: Mike Dutton, Portfolio Manager, John Greenwood, Portfolio Manager, and Yingru Li, Investment Officer.

The Chair directed that in the next Initiative update staff provide information regarding how the program will be promoted to ensure that interested participants are aware of the new opportunities for capital.

The Committee accepted the information report.

### **AGENDA ITEM 5b – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, California Initiative Update**

Leon Shahinian, Senior Investment Officer, and Joncarlo Mark, Senior Portfolio Manager, presented the item.

The primary Program objective is to earn attractive risk-adjusted rates of return. As an ancillary investments benefit, the Program is expected to have a positive impact on underserved California markets. At the February 2006 meeting, staff reported both financial results as well as the ancillary benefits assessment on the Program. At that

time, the Chair directed staff to provide another update as soon as feasible, incorporating Committee input.

Staff and third-party consultants provided additional information about the ancillary benefits and a non-financial assessment of the Program. An emphasis was placed on the criteria used to measure the Program's impact on underserved markets in California.

The third-party consultant was Pacific Community Ventures, represented by Beth Sirull and Pete November.

There was discussion regarding benchmarks, identification of weak points, fund-to-fund market strategy, and syndicated vehicles. The Chair directed that in the next Initiative update staff provide information regarding how the program will be promoted to ensure that interested participants are aware of the new opportunities for capital.

The Committee accepted the information report.

#### **AGENDA ITEM 5c – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, Additional Investment in Central Valley Fund**

Leon Shahinian, Senior Investment Officer, presented the item. Staff requested that the commitment to the Central Valley Fund LP be increased to \$40 million. This investment fits with AIM's strategy of investing in underserved markets throughout California. The Fund plans to make investments in small businesses located primarily in the California Central Valley and contiguous areas of California.

Paul Yett, Hamilton Lane, was available to respond to questions from the Committee.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to increase CalPERS' commitment in the Central Valley Fund LP from \$10 million to 40 million.

#### **AGENDA ITEM 6a – GLOBAL EQUITY, Manager Development Program I and II Annual Review**

Christy Wood, Senior Investment Officer, Mary Cottrill, Senior Portfolio Manager, and Derek Hayamizu, Portfolio Manager, presented the item. Roz Hewsenan, Wilshire Associates, was available to respond to Committee questions.

Staff provided an annual review of the Manager Development Program (MDP). The review included MDP I overview, MDP I partner performance, MDP I individual manager performance, and MDP II update.

The Committee accepted the information report.

## **AGENDA ITEM 6b – GLOBAL EQUITY, Executive Compensation Strategic Plan Update**

Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item. Peter Mixon, General Counsel, was available to respond to questions from the Committee.

This agenda item is the third bi-annual update on CalPERS' progress to implement executive compensation reform as it pertains to the macro economic strategies of CalPERS' three-year Executive Compensation Strategic Plan. Staff provided a detailed update on the following strategies:

1. SEC engagement
2. SRO / exchange engagement
3. Compensation consulting industry engagement
4. Company engagement – clawback provision

There was discussion regarding backdating options, transparency, CalPERS legal involvement regarding SEC actions, and scope of CalPERS risk.

The Chair directed staff to revise corporate governance policies to address issues relating to stock option backdating and bring the proposed revisions back in the appropriate forum. In addition, the Chair directed staff to provide an update on the company engagement at the August meeting.

The Committee accepted the information report.

## **AGENDA ITEM 6c – GLOBAL EQUITY, Update on Investments in Companies Doing Business in the Sudan**

Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item.

CalPERS is committed to a Constructive Engagement Plan to effect change at those portfolio companies whose business operations in Sudan could lead to value destruction. Staff provided a progress update regarding the elements of the plan, including:

- Company responses to CalPERS letters of inquiry
- Company responses to Business Leaders Initiative on Human Rights (BLIHR) and CDA Collaborative Learning Projects letters
- Ongoing efforts to identify credible third-party consultants to assist in the identification of companies doing business in Sudan. Recently CalPERS entered into an agreement with the Institutional Shareholder Services, Inc. (ISS) to gain access to its database.

There was discussion regarding the types and level of data available and the need to continue to actively participate with coalitions regarding the very serious situation in Sudan. Staff will continue to diligently implement the Constructive Engagement Plan.

The Committee accepted the information report.

**AGENDA ITEM 6d – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group Update, Option Grant Backdating**

Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item.

Staff has developed and implemented an option backdating engagement initiative. Approximately 30 portfolio companies have been identified that have allegations of this activity. CalPERS' initial engagement letters have been sent to these companies with suggested recommended actions and requests for information. Staff will update the Committee in August.

The Committee accepted the information report.

**AGENDA ITEM 7a – GLOBAL FIXED INCOME, Securities Lending Annual Review**

Curtis Ishii, Senior Investment Officer, and Dan Kiefer, Portfolio Manager, presented the item.

Staff reported on the May closing of the sale of eSecLending. Staff is satisfied with the level of service, performance return, and responsiveness of Met West and State Street Bank.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the continuation of Metropolitan West Securities, LLC contract #95-132 and State Street Bank & Trust Company's contract #95-196.

The meeting recessed from 10:55 to 11:05 a.m.

**AGENDA ITEM 8a – SUPPLEMENTAL SAVINGS PROGRAMS, Selection of Third Party Administrator**

Marty Walton, Acting Chief, Supplemental Savings Programs, was available to respond to questions from the Committee. The agenda item reported:

In October 2005, staff informed the Committee that the CitiStreet contract to provide third-party administrator services would expire in June 2006. In April 2006 the Committee approved a 6-month contract extension to December 2006.

A request for proposal was issued in April 2006 and six firms responded and were evaluated. Based on the responsiveness of CitiStreet's technical and fee proposals to the Competitive Negotiations Solicitation (CNS) requirements, and the finalist interview, staff will proceed to enter negotiations with CitiStreet to conclude an agreement for the full range of services solicited by the CNS. The contract award will be made upon the successful conclusion of negotiations.

The Committee accepted the information report.

#### **AGENDA ITEM 9a – TOTAL FUND, Approval of Contracts for Asset Allocation Consultants**

Patricia Pinkos, Senior Investment Officer, presented the item.

CalPERS conducts Asset/Liability Workshops every three years. The next workshop is scheduled for the Fall of 2007. Staff described the services of outside firms that are needed to prepare for the workshops. The approval of contracts with Financial Engines, EFI, and Towers Perris will maintain the continuity and integrity of the workshops. Staff provided rationale for the requested exemption from competitive bidding and the Disabled Veteran Business Enterprise participation requirements. Each firm will be awarded a contract for the maximum three-year term.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve exemption from competitive bidding and the Disabled Veteran Business Enterprise participation requirements for contracts with Financial Engines Advisors LLC, EFI Actuaries, and Towers Perrin.

#### **AGENDA ITEM 10 – LEGISLATION**

Lisa Marie Hammond, Chief, Office of Governmental Affairs, presented the items.

##### **a. AB 2570 (Arambula) Community Investment: State and Local Retirement Systems**

This bill would require CalPERS, as well as other public retirement systems, to report specified information on its investments in California as part of its annually audited financial statement submitted to the Controller. Staff recommended a neutral position.

On **MOTION** by Feckner, **SECONDED** and **CARRIED** to approve a neutral position on AB 2570 (Arambula) as amended May 26, 2006.

**b. AB 2941 (Koretz) Sudan Divestment**

This bill would prohibit CalPERS and CalSTRS from investing in certain companies with business operations in the Sudan and would require sale or transfer of any investments in these companies within specified timeframes. The retirement systems boards would be required to submit a specified annual report to the Legislature. Staff recommended an oppose position based on CalPERS' legislative policy.

On **MOTION** by Mr. Hiber that CalPERS support AB 2941. There was no second to the motion.

On **MOTION** by Mr. Feckner, and **SECONDED** to approve a neutral position on AB 2941 (Koretz), as amended May 26, 2006, with suggested amendments. First, the Board should request amendments to provide indemnification for the fund. Second, the bill should be amended to ensure that it does not apply to the Supplemental Savings Program. The Committee also directed staff to concurrently seek separate legislation for indemnification relating to divestment of companies doing business in Sudan.

There was discussion regarding legislative policy, legislative strategy to obtain total CalPERS indemnification, and pros and cons regarding divestment.

Comments were received from the following individuals in support of divestment of companies doing business in Sudan:

- Jordan Steiner, UC Berkeley Students Take Action Now Darfur (STAND)
- Adam Sterling, Sudan Divestment Task Force

A roll call vote was taken:

**YES**

Diehr  
Feckner  
Greene Ross  
Mathur  
Shimada  
Tom  
Valdes

**NO**

Berte  
Endsley  
Hiber  
Oliveira

**ABSTAINED**

Carlson

The motion **CARRIED**.

In the event AB 2941 passes and is signed, the Chair directed the Legal Office to advise the Investment Committee of duties and rights and all types of indemnification, including equitable implied indemnification.

**c. SCR 117 (Soto) Reverse Annuity Mortgage Program Study**

The resolution would direct CalPERS to perform a study to determine if it is feasible to develop a Reverse Annuity Mortgage program for retired members and report back to the Legislature. Staff recommended a support position.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to approve a support position on SCR 117 (Soto) as introduced.

**AGENDA ITEM 11a – CHIEF INVESTMENT OFFICER’S / ASSISTANT EXECUTIVE OFFICER’S REPORT, Consolidated Investment Activity Report**

Russell Read, Chief Investment Officer, presented the item. The Committee accepted the Consolidated Investment Activity Report. As of April 30, 2006, the total fund market value was approximately \$211.1 billion and the total book value was approximately \$163.3 billion.

**AGENDA ITEM 11b – CHIEF INVESTMENT OFFICER’S / ASSISTANT EXECUTIVE OFFICER’S REPORT, Status Report**

Anne Stausboll, Assistant Executive Officer, presented the item and the Committee accepted the information report.

**AGENDA ITEM 12 – DRAFT AUGUST 2006 AGENDA**

The Committee accepted the proposed August 14, 2006 agenda and added a stock option backdating update item.

**AGENDA ITEM 13 – PUBLIC COMMENT**

There were no additional public comments.

The meeting adjourned at 11:40 a.m.

**The next meeting of the Committee is scheduled for August 14, 2006 in Sacramento, California.**

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**FRED BUENROSTRO**  
Chief Executive Officer